

Written submission of

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before the

House Committee on the Budget

concerning

Reducing Waste, Fraud, and Abuse
in Government Programs

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Mr. Chairman, Congressman Spratt, and Members of the Committee on the Budget:

I. INTRODUCTION

I appreciate the opportunity to submit this written statement in connection with the Committee's hearing on waste, fraud, and abuse in mandatory spending programs. Unlike other federal government agencies, the Department of Justice (Department) has few programs in which funding levels are set by law. Nonetheless, we expend significant efforts at the Office of the Inspector General (OIG) identifying and preventing waste, fraud, and abuse in a wide variety of Department programs – efforts that are consistent with the Committee's goal of holding government agencies accountable for how they spend taxpayer money.

In my statement today, I will describe the results of OIG audits, inspections, investigations, and special reviews that examined issues related to waste, fraud, and abuse. These issues fall into three general categories, each of which we have identified as top management challenges in the Department.

- Procurement, including contracting for detention space
- Grant management
- Information technology (IT) systems planning and implementation

Before I turn to these OIG reviews, I want to describe for the Committee an important initiative we have ongoing in our Investigations Division – our Fraud Detection Office (FDO). We formed this office in order to concentrate specialized investigative resources on detecting and investigating fraud in Department programs and expenditures. In addition, the FDO assists other OIG Investigations Division field offices by providing investigative and forensic audit support to their fraud investigations. Currently, the FDO consists of a Special Agent in Charge, Assistant Special Agent in Charge, five Special Agents, two Forensic Auditors, and a Fraud Analyst.

The FDO has investigated several cases involving false claims or false statements related to the Department's September 11 Victim Compensation Fund, Office of Justice Programs (OJP) grants, and Community Oriented Policing Service (COPS) grants. In addition to working criminal and administrative fraud cases, the FDO conducts proactive fraud briefings in procurement offices throughout the Department.

One of the FDO's major initiatives is to detect and deter fraud in Department credit card purchases. This initiative, which began in June 2003, will examine whether Department credit cards used for purchases, employee travel, government vehicles, and telephones are used in accordance with applicable laws, regulations, and policies. Reviews in other federal agencies, such as the Department of Defense and the General Services Administration, have disclosed particular vulnerabilities to fraud through use of agency credit cards, most of which center around unauthorized purchases for personal items and outright theft or embezzlements. The FDO project includes compliance checks of Department policies and procedures; data mining of credit card transactions for indications of fraud; verification of documents, account statements, and purchase invoices; and site visits to the component headquarters and field office units.

II. PROCUREMENT

The Department spends over \$4 billion annually on contracts for building construction; information technology; and professional, administrative, and management support services. In addition, in fiscal year (FY) 2002 the Department spent an additional \$1 billion on intergovernmental agreements (IGAs) with state and local governments to house immigration detainees and individuals awaiting federal criminal proceedings. Our audits of these IGAs have disclosed significant over-billing of the Department for detention services. For example:

- In June 2001, we issued an audit of an IGA for detention space with York County, Pennsylvania. The audit revealed that in FY 2000 York County overcharged the Department in excess of \$6 million due to York County's understatement of its average daily population, a key figure used to determine reimbursement from the Immigration and Naturalization Service (INS). In addition, we found that the Department could realize annual savings of approximately \$6.4 million if York County used the daily rate determined by our audit.
- Our audit of the IGA between the INS and the DeKalb County, Georgia, Sheriff's Office revealed that the county included \$13.4 million of operating costs that were unallowable, unallocable, or unsupported; understated its average total inmate population by more than 29 percent; and over-billed the INS \$5.7 million in FY 2000.
- We examined an IGA involving the Government of Guam's detention of INS and U.S. Marshals Service (USMS) detainees and found that for FY 1999-2000 the Department overpaid Guam more than \$3.6 million based on the actual allowable costs and the average daily population.

In addition, the OIG found that the Department could realize annual savings of \$3.3 million by using the OIG's audited rate for future payments.

The OIG has conducted reviews in other Department components in which we have identified significant potential cost savings, including an audit of the Drug Enforcement Administration's (DEA) contracts for linguistic services in which we identified \$2.8 million in questioned costs out of \$9.4 million paid to contractors. Specifically, we found that the DEA contracting officer's technical representatives did not provide adequate oversight of the contracts, and that the DEA paid contractors for services not authorized by delivery orders, services performed outside the allowable performance period, hours not supported by timesheets or logs, overtime that was not properly approved, and unauthorized or unsupported travel costs.

Finally, the OIG continues to investigate individual allegations of fraud or misuse of government resources by Department employees and contractors. For example, a clerk in the U.S. Attorney's Office in Los Angeles, California, pleaded guilty to embezzling more than \$400,000 using her government-issued procurement card. The OIG established that the clerk purchased computers, printers, copy machines, clothes, and vacation trips using the government credit card. The clerk was sentenced to 40 days' incarceration, 5 years' probation, and ordered to pay \$432,000 in restitution.

In another case, the OIG found that an Administrative Officer for the U.S. Attorney's office in Portland, Oregon, misused her government-issued credit card by obtaining cash advances and draft checks amounting to more than \$39,000. The investigation further determined that the employee created fictitious obligation accounts and used existing obligation accounts with forged signatures in order to obtain the money. The employee pled guilty and received 10 months' incarceration, 3 years' of probation, and was ordered to pay \$39,000 in restitution.

III. GRANT MANAGEMENT

The number and amount of grants the Department awards have grown rapidly, increasing from \$849 million in 1994 to nearly \$5 billion in each of the past five years. Grants, which now account for almost 20 percent of the Department's total budget, are primarily awarded by the Department's Office of Justice Programs (OJP) and the Office of Community Oriented Policing Services (COPS).

Over the past decade, the Department has disbursed billions of dollars for, among other initiatives, community policing, drug treatment programs, reimbursement to states for incarcerating illegal aliens, and counterterrorism initiatives. Disbursement of such significant amounts of grant money has

resulted in ongoing management challenges and our reviews, in addition to work performed by GAO, have identified problems with grant management in the Department.

For example, OIG reviews have found that many grantees did not submit required program monitoring and financial reports and that program officials' on-site monitoring reviews did not consistently address all grant conditions. Grant monitoring is an essential management tool to ensure that grantees are properly expending funds and that the objectives of the grant program are implemented. Generally, each grant manager is required to prepare a monitoring plan that includes on-site visits, review of financial and progress reports, telephonic contacts, and review of audit reports. In some cases, however, we found that monitoring activities were not being documented in grant files, reports for on-site visits were not prepared, on-site inspections did not include visits to project sites, financial and progress reports were not submitted or not submitted timely, and grant managers were not reviewing carefully the information they received. As a result, grant managers failed to catch inconsistent or incorrect information on project activities.

In April 1999, the OIG issued a report summarizing the findings from 149 audits of COPS grants conducted during FYs 1997 and 1998, the OIG's first two years of auditing COPS grant recipients. These 149 grants totaled \$511 million, or about 10 percent of the \$5 billion in grants COPS had obligated up to that time. Our individual audits focused on: 1) the allowability of grant expenditures; 2) whether local matching funds were previously budgeted for law enforcement; 3) the implementation or enhancement of community policing activities; 4) hiring efforts to fill vacant officer positions; 5) plans to retain officer positions at grant completion; 6) grantee reporting; and 7) analyses of supplanting issues.

Our audits identified weaknesses in each of these areas. For the 149 grant audits, we identified approximately \$52 million in questioned costs and approximately \$71 million in funds that could be better used.¹ Our dollar-related findings amounted to 24 percent of the total funds awarded to the 149 grantees.

In our judgment, based on our ongoing audit work, the Making Officer Redeployment Effective (MORE) grant program continues to be the COPS Office's highest risk program. The MORE grants have funded technology or the

¹ "Questioned costs" are expenditures that do not comply with legal, regulatory, or contractual requirements, are not supported by adequate documentation at the time of the audit, or are unnecessary or unreasonable. Questioned costs may be remedied by offset, waiver, recovery of funds, or the provision of supporting documentation. "Funds to better use" are expenditures that would be better used if management acts on and implements our audit recommendations.

hiring of civilians to allow existing officers to be redeployed from administrative activities to community policing. More than \$1 billion has been awarded under MORE grant programs since the first awards began in 1995. Although MORE grants are intended to last for one year, we found numerous instances where COPS extended grant periods several additional years. For example, when police departments buy computers or mobile data terminals and fail to install them in a timely manner, they may become obsolete by the time they are operational. Importantly, we rarely found that MORE grant recipients could demonstrate that they had redeployed the required number of officers to community policing as a result of the MORE grants. We believe the recent 2002 MORE grants add to the high-risk nature of the MORE grant program by not requiring tracking of officer redeployment.

Over the years, the OIG has audited a variety of OJP grant programs, several of which we describe below.

A. State Criminal Alien Assistance Grant Program (SCAAP)

Under the SCAAP program, OJP provides grants to state and local governments to help defray the cost of incarcerating undocumented criminal aliens convicted of state or local felonies. In an audit report issued in May 2000, we found that OJP had overcompensated state applicants approximately \$19.3 million for unallowable inmate costs and ineligible inmates who were included in grant applications. We found that OJP's methodology for compensating states was over-inclusive and needed improvement, because OJP overpaid states for many inmates whose immigration status was unknown.

B. Safefutures: Partnerships to Reduce Youth Violence and Delinquency

Partnerships to Reduce Youth Violence and Delinquency (Safefutures) was a five-year demonstration grant program administered by OJP to help six competitively selected communities reduce juvenile delinquency. OJP's Office of Juvenile Justice and Delinquency Prevention (OJJDP) administered the grants that helped communities implement a continuum of care consisting of prevention, intervention, treatment, and graduated sanctions programs for at-risk and delinquent youth. Each grantee could receive up to \$1.4 million per year, for a total of about \$7 million, to implement nine specific programs and help reform its existing service delivery system. Total program costs were expected to be about \$42 million. Our audit report, issued in April 1999, found that OJJDP program managers were not adhering to the grant-monitoring plans, and their monitoring efforts were neither consistent nor consistently documented. As a result, we found it difficult to determine the level of monitoring that actually occurred. We found that a lack of current policies and procedures, unclear expectations, and insufficient accountability contributed to the monitoring problems.

In addition, we found weak controls over fiscal monitoring of the program. Quarterly financial reports, which often were untimely and inaccurate, were not reviewed or corrected routinely. Additionally, we found that incomplete official grant files were a continuing problem. All of the files reviewed by the OIG in this audit were missing some of the required documents needed to record the activity of each grant.

C. Residential Substance Abuse Treatment for State Prisoners Formula Grant (RSAT) Program

The OIG reviewed RSAT grants in six states from March 1999 through June 1999 and issued a summary report in September 2000. The purpose of the RSAT grant program is to develop or enhance residential drug and alcohol abuse treatment programs for adult and juvenile offenders in state and local correctional facilities. Funding for RSAT grants from FY 1996 through FY 2002 has ranged from \$27 million to \$63 million. OIG site visits assessed the states' adherence to grant guidance and progress toward implementing residential substance abuse treatment programs.

In a September 2000 summary report, we concluded that OJP's monitoring and oversight of the grant program needed strengthening. States received grant funds through a formula grant and had responsibility for monitoring any sub-awards and providing the required monitoring reports to OJP. We found that OJP was not diligent in ensuring that states provided the required reports (such as financial status reports, semiannual progress reports, and individual project reports) on the use of grant funds and the progress of projects. All six RSAT grantees failed to submit accurate or timely reports. These reports are an important tool to help managers and grant monitors determine if grantees are meeting program objectives and financial commitments. Even when states provided the reports, the quality of the CPO review was not consistent. Further, OJP failed to ensure that conflicting or missing information in a state's reports were clarified or obtained.

We found that OJP conducted limited site visits, citing insufficient staff resources. When visits were conducted, sub-grantees – the organizations that actually implement the projects or programs – were not targeted and visits were generally limited to the state office designated to receive grant awards. Therefore, OJP did not assess the actual programs for compliance with grant requirements. We also found that on-site monitoring reports were not completed or included in the official grant file. Finally, we found that overall record keeping needed improvement. Official grant files were missing applications, award documents, state reports, and site visit reports so that the life cycle of a state's grant compliance could not be tracked readily.

D. OIG Investigations in Department Grant Programs

In addition to OIG audits and inspections, the OIG's Investigations Division investigates allegations of waste, fraud, and abuse in Department grant programs. Examples of cases that we have substantiated include:

- An Oklahoma death row inmate pled guilty to charges of false statements in connection with a fraudulent claim he made to the September 11 Victim Compensation Fund. The OIG developed evidence that the inmate submitted false statements purporting that his wife had been killed at the World Trade Center on September 11, 2001.
- An individual pled guilty in the Western District of Arkansas to charges of mail fraud for submitting a fraudulent application for compensation from the September 11 Victim Compensation Fund. The individual claimed that her brother, a New York City firefighter, was killed in the terrorist attacks. In fact, the OIG determined that her brother did not die in the terrorist attacks.
- In September 2002, OJP sent a letter to the City of Portland, Oregon, demanding repayment in the amount of \$114,514 for misuse of funds received between 1996 and 1998 under an OJP Local Law Enforcement Block Grant. An OIG investigation disclosed that police officers received overtime pay from the Block Grant on more than 100 occasions for work they did not perform.
- An OIG investigation led to the arrest and conviction of a former Missouri chief of police for false statements and theft. The OIG established that the former police chief in Novinger, Missouri, falsified COPS Universal Hiring Grant paperwork to claim he hired and paid one additional officer when, in fact, he used the grant to pay his own salary, including a \$6,000 annual raise. When confronted by OIG special agents, the former police chief admitted falsifying grant applications. He was sentenced to two years' probation and ordered to pay \$53,190 in restitution.
- A former acting chief of the Town of Navajo Department of Law Enforcement was convicted at trial in the District of New Mexico on charges of wire fraud. He was sentenced to 30 months' incarceration and ordered to pay \$102,877 in restitution. A joint investigation by the OIG and the Federal Bureau of Investigation (FBI) determined that the acting chief fraudulently applied for and received a COPS Problem-Solving Partnership Grant to establish a "Crime Busters" program targeting burglaries. The acting chief diverted more than

\$100,000 in grant funds to personal use by making illegal sub-awards to members of his immediate family who used some of the money to purchase a used pickup truck and other vehicles.

- Based on an investigation by the OIG and the North Carolina Governor's Crime Commission, Hoke County repaid the state of North Carolina \$93,467 in Byrne Formula grant funds awarded by the Department. The county manager was alleged to have purposefully submitted false documentation relating to police vehicle purchases under the grant and then diverted the funds to other uses. Although no proof of intent to defraud was sustained, the supplanted funds were recovered and returned to the state.

IV. IT SYSTEM PLANNING AND IMPLEMENTATION

The Department currently spends about \$2 billion annually on IT, approximately 6 to 8 percent of its total budget. The OIG monitors the Department's IT system planning and implementation through a combination of performance reviews, financial statement audits, and computer security audits. Examples of our performance audits include reviews of IT management practices at the INS and the FBI.²

For example, our December 2002 audit concluded that the FBI had not effectively managed its IT investments because it did not fully implement the management processes associated with successful IT investments. Consequently, the FBI continued to spend hundreds of millions of dollars on IT projects without adequate assurance that these projects would meet their intended goals. FBI managers recognized that the agency's past methods to manage IT projects were deficient and they have committed to changing those practices.

Nonetheless, we concluded that the FBI must take further actions to ensure that it can implement the fundamental processes necessary to build an IT investment foundation, as well as the more mature processes associated with highly effective IT investment management. These actions include: 1) fully developing and documenting its new IT investment management process; 2) requiring increased participation from IT program managers and users; and 3) further developing the FBI's project management and enterprise architecture functions.

Additionally, we issue annual reports that review the Department's financial statement as part of the *Chief Financial Officers Act of 1990* and the

² As of March 1, 2003, the INS transferred from the Department of Justice to the Department of Homeland Security (DHS). Since March 1, oversight of immigration-related programs and personnel is the responsibility of the DHS OIG.

Government Management Reform Act of 1994. For the last two fiscal years, the Department has received an unqualified opinion on its financial statements. An unqualified opinion means that the financial statements present fairly, in all material respects, the financial position and results of operation for the Department of Justice. However, while Department components have made improvements in internal controls, material weaknesses remain in financial accounting and reporting procedures and in information systems. Many tasks had to be performed manually because the Department lacks automated systems to readily support ongoing accounting operations, financial statement preparation, and the audit process. Manual efforts compromise the ability of the Department to prepare financial statements timely and in accordance with generally accepted accounting principles, require expenditure of considerable monetary and human resources, and represent an inefficient use of these resources.

Further, the lack of integration between principal financial management systems and sub-systems requires Department components to maintain duplicate records and perform additional account reconciliation. The Department currently has at least six major financial management systems used by its components, including both systems developed in-house and numerous off-the-shelf systems. Millions of dollars have been wasted in the last five years on installing these systems throughout the Department with varying success and, in some cases, little improvement in the quality or timeliness of financial data. These issues, which have existed for decades, continue to cause difficulties in preparing consolidated financial statements and in providing consistent and timely financial information to Department managers.

V. ONGOING WORK

While I have focused on the areas of procurement, grant management, and IT in this statement, the OIG reviews a variety of other Department programs as part of our ongoing efforts to identify and prevent waste, fraud, and abuse. Among our ongoing reviews:

- **September 11 Victim Compensation Fund.** The September 11 Victim Compensation Fund was established in September 2001 as part of the *Air Transportation Safety and Stabilization Act* to provide “compensation to any individual (or relatives of a deceased individual) who was physically injured or killed as a result of the terrorist-related aircraft crashes of September 11, 2001.” We are currently reviewing the Victim Compensation Fund to determine the effectiveness of the fraud controls used to identify fraudulent claims for compensation.

- **The Department's Counterterrorism Fund.** The Department of Justice Counterterrorism Fund (Fund) was established to assist Department components with the unanticipated costs of responding to and preventing acts of terrorism. The Fund is used to pay for expenses beyond what a component's appropriation reasonably could be expected to fund, such as: reestablishing the operational capability of a facility damaged by a terrorist act; investigating or prosecuting acts of terrorism; and conducting a terrorism threat assessment of federal agencies and their facilities. Congress has appropriated more than \$360 million to the Fund since its inception in 1995, of which about \$290 million has been obligated for counterterrorism expenses, including the Oklahoma City Bombing investigation and trial, the U.S. Embassy Bombings in Africa, and the September 11 World Trade Center and Pentagon bombings. We are currently reviewing the Fund to determine whether fund expenditures were authorized, supported, and obligated in accordance with the intent of the law.
- **Vendor Payments and Credit Card Usage in the U.S. Attorneys' Offices (USAO) and the Executive Office for U.S. Attorneys (EOUSA).** We are currently reviewing vendor payments and credit card usage in the USAOs and the EOUSA to determine whether payments were made in accordance with relevant policies and authorities.
- **USMS Medical Care.** As part of this audit, we are assessing whether USMS medical costs are necessary and reasonable and will examine potential double-billings.

VI. CONCLUSION

The OIG has a long history of aggressively reviewing Department operations and programs in an effort to detect and deter waste, fraud, and abuse. As we look to the future, the OIG will continue to emphasize audits, inspections, and investigations while at the same time launching new initiatives such as the Fraud Detection Office in an effort to deter fraud and promote efficiency and effectiveness in Department activities.